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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Drop In Oil Prices . . .

After nearly a year of uncertainty regarding OPEC's ability to set a common strategy for oil production and pricing, crude oil prices last week fell. The oil ministers of five Arab nations decided to cut prices, following the United Kingdom's and Norway's $3 drop and Nigeria's $5.50 per barrel reduction. Notwithstanding the huge oversupply of oil on world markets, many of the poorer, heavily populated OPEC members were unwilling to accept limits on their production. They are locked into development programs based on expectations of continuously rising revenues derived from oil exports and thus need to produce as much as possible, in the process exporting more than the market could absorb. The spot oil price, which reflects the world supply/demand balance, has been below the $34 per barrel "official" price for over a year and is currently around $28 per barrel.

The press has given plenty of attention to the negative aspects of falling petroleum prices. However, from here, it would appear that such concern is unwarranted. Undoubtedly, there will be some losing countries, industries and regions. But the overall economic benefits stemming from a resulting faster pace of business activity, less inflation, lower interest rates and improved corporate balance sheets will far outweigh whatever negative impact declining prices may have.

In the United States, for example, the decline in oil prices is expected to speed up the economic recovery, which is already underway. Within a year, each dollar per barrel decline could add 0.2 per cent to the growth rate of the real GNP. Consumers would be the major beneficiaries. A $4 per barrel drop in the average price of crude oil could shave about eight cents from the cost of a gallon of gasoline and home heating oil. Since spending on energy represents more than ten per cent of consumers' budgets, a decline in fuel prices will therefore result in a substantial saving for individual households, leaving more to be spent on other goods and services. In time, industrial production would be expanded, boosting demand not only for raw materials and machinery, but also for labor. Employment would rise at a faster pace than it otherwise would, putting more money into people's pockets.

. . . Is Good For The Economy

Probably the most important immediate effect of a drop in the price of petroleum would be lower worldwide inflation rates. In this country, every dollar per barrel drop should lower the rate of inflation by 0.2 per cent. The greatest benefits would accrue during the first six months following the cut. But further advantages would come in the year that follows—albeit at slower rates—as the lower cost of energy filters through the economy.

Even now, the rate of inflation has slowed dramatically. At the wholesale level, prices actually fell by one per cent in January—posting the biggest drop for any month in the postwar era. (If prices continued to drop at this rate for a full year, we would have double-digit deflation!) Much of this showed up at the retail level. In January, the consumer price index stabilized, following December's 0.3 per cent month-over-month decline. In fact, since November, the CPI declined by 1.2 per cent at an annual rate, making this the best three-month period for inflation in over 25 years.

In addition to the expected favorable impact of declining energy prices, there is more good news on the inflation front. The underlying or "core" rate of inflation—the long-term relationship between the cost of labor and capital—has been retreating for more than two years. The descent, which picked up speed in 1982, should continue this year as wage gains remain small and productivity rises. This

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deceleration in unit labor costs will put a lid on inflation, offsetting any upward price pressures that might result from the strengthening in economic activity.

Last year, plant closings and dramatic workforce reductions led to a 0.4 per cent rise in labor productivity. But this has happened only because businessmen laid off workers at a much faster pace than they trimmed output. In manufacturing, for example, output fell by 7.8 per cent in the final quarter of 1982, year-over-year, with a 9.1 per cent reduction in the number of hours worked. This year, productivity should rise at a faster rate. Traditionally, the greatest productivity gains are achieved during the early stages of recovery as businessmen are able to expand output faster than labor hours worked. What is more, productivity should rise as capacity utilization advances to more efficient levels.

More Signs Of Recovery

More encouraging economic news confirming that the recovery is slowly getting under way continues to be released by the government. Thanks to lower mortgage interest rates, construction was started on 1.7 million homes in January at a seasonally adjusted annual rate—nearly double the pace of a year ago. Inventories were reduced dramatically in most industries in the fourth quarter, paving the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/16/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.757	+ .752	+ 6.074
Loans to Depository Inst.	.869	+ .497	– 1.039
Float	2.760	+ .736	+ .333
Total Reserve Bank Credit	156.050	+ 1.852	+ 5.016
Treasury Deposits with Federal Reserve Banks	3.271	– .185	– 1.297
Currency Outside Banks	135.420	+ 1.044	+ 9.416
Member Bank Reserves:			
Required	39.416	+ .384	– 2.022
Excess (Deficiency)	.952	+ .539	+ .384
Total Reserves Held	40.368	+ .923	– 1.638
Net Free Reserves	.396	+ .086	+ 1.375
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.251	+ 1.208	+19.610

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	489.5	+ 12.2‡	+ 8.9‡
M2 (January '83)	2,007.1	+ 16.1	+ 10.9
M3 (January '83)	2,399.7	+ 8.1	+ 10.0
L (September '82)	2,837.7	+ 10.4	+ 10.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 2/25/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.85%	7.90%	7.95%
* Federal Agencies	7.85	8.35	9.00
* Project Notes–Taxfree (46% Taxable Equivalent)	6.85	7.31	7.96
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.25	8.45	9.05

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.88%	Mar.	8.30%
15- 29 days	8.00	Apr.	8.30
30- 59 days	8.00	May	8.30
60- 89 days	8.00	Jun.	8.30
90-179 days	8.00	Jul.	8.35
180-239 days	8.00	Aug.	8.30
240-270 days	8.00		

‡Industrial Paper–Prime		†Federal Funds Effective Rate	8.20%
30- 89 days	7.88%		
90-120 days	7.88		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.9	0.7	– 5.3
Change in Consumer Prices (new series)*	Jan '83n	2.4%	– 3.6%	3.6%
Change in Producer Prices*	Jan '83	– 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Jan '83	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force †	Jan '83	10.4%	10.8%	8.6%
Personal Income*	Jan '83	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100) †	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Jan '83	136.2	135.0	140.7
Net Change in Consumer Installment Credit †	Dec '82	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Jan '83	1,716	1,263	877
New Construction Expenditures*	Dec '82	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories †	Dec '82	$ 505.6	$ 508.6	$ 519.4
Total Business Sales †	Dec '82	$ 332.7	$ 335.8	$ 341.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

way for output to increase. Industrial production rose in December and January, following declines in 14 out of the previous 16 months, while factory capacity utilization was stepped up last month for the first time in nearly a year. What is more, final demand, especially by the consumer sector, has picked up and businessmen's order books have started to fill up once again.

Furthermore, there are signs that the pace of business will pick up further. The 16 per cent rise in applications for building permits portends a further step-up in housing construction. The rise in the average workweek foreshadows another rise in employment which bodes well for the demand for consumer goods. The 4.5 per cent rise in new orders for durable goods presages more increases in industrial production in the coming months.

In January, industrial production rose 0.9 per cent month-over-month, posting the second largest increase in more than two years. Even more important, the improvement in industrial production seems to be spreading to more and more sectors of the economy. Whereas in November, less than one-fifth of the industries which reported results showed gains, a month later this proportion had more than doubled and in January nearly three-quarters of the available industries reported expansions in factory output.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/9/83)	117,089	– 1,134	–16,715
New York City (2/9/83)	31,681	– 408	– 2,879
Commercial Paper (2/9/83)	167,751	– 207	– 963*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/9/83)	216,714	– 1,851	+17,784
New York City (2/9/83)	60,537	– 880	+ 4,624

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/9/83)	501,559	– 5,637	+29,780
New York City (2/9/83)	117,322	– 2,389	+ 8,339

Financial Markets

	Friday 2/25/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.10%	– .15	– 4.75
180-Day Bills†	8.32	– .23	– 5.63
Longest Bills†	8.57	– .28	– 5.53
Recent Issues:			
9⅝s 2/28/85 (When Issued)	9.30	NA	
10s 12/31/86	9.70	– .25	
10⅞s 2/15/93	10.25	– .30	
10⅜s 11/15/12	10.50	– .25	
Municipals:			
Bond Buyer–20 Bond Index* (2/24/83)	9.34%	– .19	– 3.36
Blue List Total ($ Million)	$1,045	+ $ 64	+ $243
30-Day Visible Supply ($ Million)	$2,275	– $394	+ $485
Total	$3,320	– $330	+ $728
Corporates:			
Moody's Aa Composite (2/24/83)	12.44%	– .08	– 3.02
30-Day Visible Supply ($ Million) ‡	$ 963	+ $653	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,120.94	+ 28.12	+ 296.55
Transportation	492.30	+ 11.60	+ 155.92
Utilities	124.82	+ .70	+ 17.59
65 Stocks	440.08	+ 9.77	+ 116.54
Standard and Poor's 500 Stocks	149.74	+ 1.74	+ 36.63
N.Y.S.E. Composite Index	86.34	+ .90	+ 21.01
N.Y.S.E. Avg. Daily Vol. for Week (000's)	95,828	+16,556	+ 39,586

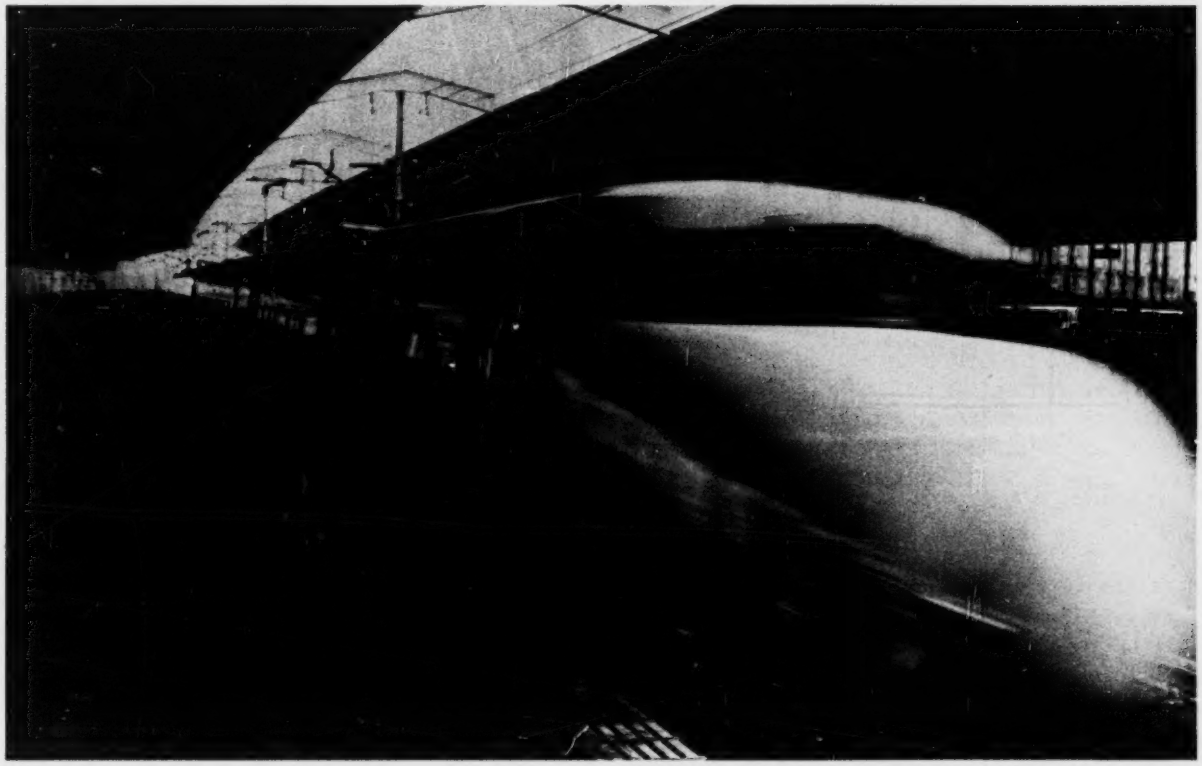
* 46% Taxable equivalent 17.30%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

	Friday 2/25/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.25%	8.38%
1 month	8.75	8.88
3 month	8.88	9.06
6 month	9.13	9.25
1 year	9.38	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.70%
Long Term (7 to 15 yrs.)	11.72	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/25/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02100	47.62
Canada	.8141	1.2284
Denmark	.1162	8.6075
France	.1458	6.8580
Germany	.4142	2.4145
Italy	.0007171	1394.50
Japan	.004257	234.93
Mexico	.006250	160.00
Netherlands	.3746	2.6695
Switzerland	.4925	2.0303
U.K.	1.5260	.6553



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